

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 8009**

**BILL NUMBER:** SB 630

**DATE PREPARED:** Feb 24, 1999

**BILL AMENDED:** Feb 22, 1999

**SUBJECT:** Certified capital companies.

**FISCAL ANALYST:** Brian Tabor

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**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues			(10,000,000)
State Expenditures			
Net Increase (Decrease)			(10,000,000)

**Summary of Legislation:** (Amended) This bill permits the formation of certified capital companies. It allows certified capital companies to invest in certain Indiana businesses and allows insurance companies that invest in certified capital companies to claim a credit against the insurance premiums tax. The bill also provides that the credit is equal to the amount of the insurance company's investment in a certified capital company, but allows the insurance company to take only 10% of the allowed credit in a particular taxable year. Allowable credits would be limited to the amounts appropriated for credits in a budget bill.

**Effective Date:** January 1, 2000.

**Explanation of State Expenditures:** (Revised) This bill would allow for the establishment of certified capital companies. These entities would make investments only in "qualified" small Indiana businesses that are involved in manufacturing and high technology industries and in need of venture capital. These qualified businesses must employ at least 70% of their workforce in Indiana and be unable to obtain conventional financing. A certified capital company may not invest more than 15% of its total capital in any one business.

The Indiana Development Finance Authority (IDFA) would oversee the formation of the certified capital companies and review each certified capital company annually to determine if the certification requirements are being met. The IDFA would also be required to submit an annual report to the Legislative Services

Agency detailing investments, performance, number of jobs created, and other information about each certified capital company. These requirements would increase administrative expenses and may necessitate the hiring of an additional staff member.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) Existing staff and resources not currently being used to capacity; (2) Existing staff and resources currently being used in another program; (3) Authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) Funds that, otherwise, would be reverted; or (5) New appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

**Explanation of State Revenues:** (Revised) This bill would entitle investors in certified capital companies to a tax credit against their insurance premium tax liability. The amount of total credits allowable each year would be appropriated in the state budget bill. Certified capital companies would then make qualified investments in certain Indiana businesses (see above Explanation of State Expenditures).

*Direct impact:* Under this bill, investors with insurance premium tax liability (insurance companies) are entitled to a tax credit equal to 100% of the amount of capital annually invested in a certified capital company. A particular certified capital company would also be limited to receiving \$30 M in capital investment for which credits may be allowed. An insurance company may not claim more than 10% of the credit in each taxable year. The aggregate amount of tax credits allowable under this proposal is \$100 M, and only \$10 M of this limit may be granted among all investors in each taxable year (or a lesser amount, as appropriated by the budget bill). If the maximum limit of credits was allowed each year beginning in FY 2001, no more credits could be granted under this bill after the tenth year, FY 2010.

If the total amount invested exceeds \$10 M in one year, credits would be allocated based on the proportional amount of investment in each certified capital company. The credit may not exceed an investors' premium tax liability in a single year, however, excess credit may be carried forward up to fifteen years after the initial certification of the capital company. If a qualified business is seeking financing, an individual certified capital company would only be allowed to invest up to 50% of the financing sought. This provision would spread the risk of the state's "investment" (through the granting of tax credits) between certified capital companies and other investors.

Insurance premium tax collections in FY 1998 totaled almost \$147 M, and revenue from this tax is deposited in the state General Fund. Due to the January 1, 2000 effective date of this bill, FY 2001 would be the first year credits allowed under this bill could be used. Insurance companies domiciled in Indiana may elect to pay the gross income tax instead of the insurance premium tax. If more credits against premium tax liability were available, more insurance companies may choose to pay the premium tax, reducing gross income tax revenue. Revenue from the gross income tax is also deposited in the state General Fund, and collections in FY 1998 totaled about \$548 M.

This bill provides that the state's investment, a maximum of \$100 M in tax credits, may be offset by requiring a percentage of certified capital companies' return on investments to be paid back to the state. When cumulative distributions to a capital company's investors have exceeded the amount invested, any distributions in excess of this amount, with the exception of certain qualified distributions, would be considered a return on the investment. Upon audit by a private accounting firm as directed by the IDFA, the capital company would pay 10% of this return to the state Department of Revenue. The revenue returned to the state in this manner from each capital company may not exceed the aggregate amount of tax credits used

by all of that entity's certified investors. As the total amount of credits allowed under this proposal is \$100 M, the overall limit that the state could receive based on the assessment of capital companies' return on investments made would also be limited to \$100 M. The actual state revenue collected would depend on the performance of the certified capital companies.

The IDFA would collect a \$7,500 application fee for the establishment of a certified capital company and an annual certification fee of \$5,000. The annual fee is to be used to cover the cost of the annual review of each certified capital company required by this bill. Revenue from the application fee could be used to help defray other additional administrative costs (see above Explanation of State Expenditures).

*Secondary impact:* If the investments made through certified capital companies are successful in creating new jobs and business development, there should be increases in corporate and personal income tax collections. Greater personal income may also result in increased revenue from other taxes, such as the sales tax, the motor vehicle excise tax, and others. It is not known if the positive secondary impacts associated with this proposal would be enough to offset the reduction in insurance premium tax revenues.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** If the investments made through certified capital companies are successful in creating employment and economic development, there could be positive secondary fiscal impacts for local units (see above Explanation of Local Revenues).

**State Agencies Affected:** IDFA.

**Local Agencies Affected:**

**Information Sources:** Leslie Richardson, Director, Division of Research, Indiana Department of Commerce, (317) 232-8962; Greg Schrock, Indiana Economic Development Council, (317) 631-0871.